

Message Text

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INFO OCT-01 EA-11 ISO-00 SCI-06 EB-11 COME-00 OMB-01

SCEM-02 INT-08 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

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USIA-15 TRSE-00 DRC-01 NEA-10 AF-10 IO-14 /177 W

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R 051207Z JAN 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9546

INFO AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 00209

E.O. 11652: GDS

TAGS: ENRG, ECON, GW

SUBJECT: PRODUCTIVITY GAP THESIS: A GERMAN PERCEPTION
OF THE ENERGY CRISIS IMPACT

1. SUMMARY: A THESIS OF A LONG-TERM PRODUCTIVITY GAP,
INDUCED BY THE ENERGY CRISIS, BETWEEN THE RELATIVELY
ENERGY-INDEPENDENT SUPER POWERS, ESPECIALLY THE US, AND
LESS ENDOWED EUROPE AND JAPAN IS GAINING CURRENCY IN
OFFICIAL AND UNOFFICIAL THINKING IN THE FRG. SHOULD
THIS THESIS BEGIN TO INFLUENCE MORE SIGNIFICANTLY THE
OFFICIAL PERCEPTION OF GERMANY'S IMMEDIATE ECONOMIC
FUTURE, IT IS LIKELY TO EXERT A STRONG IMPACT ON THE
SHAPING OF ITS CURRENT POLICIES. END SUMMARY.

2. WHILE THE DIMENSIONS OF THE IMPACT OF LATEST ENERGY
SUPPLY/PRICE DEVELOPMENTS ON THE FRG'S ECONOMY ARE NOT
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YET FULLY CALCULABLE, EVEN FOR 1974, A NUMBER OF GERMANS

AT POLICY-MAKING LEVELS ALREADY ARGUE THAT ITS EFFECTS WILL BE FAR REACHING AND DECIDEDLY TO THE FRG'S (AND EUROPE'S) COMPARATIVE DISADVANTAGE. THE HYPOTHESIS IS THAT A MASSIVE SHIFT IN COMPETITIVE ADVANTAGE IS SHAPING UP IN FAVOR OF THE MORE ENERGY-INDEPENDENT SUPER POWERS, THE U.S. IN PARTICULAR. A COMMON VERSION OF THIS THESIS IS THAT A LONG-TERM PRODUCTIVITY GAP IS OPENING UP, APPARENTLY BECAUSE THE U.S. WILL CONTINUE TO BE ABLE, OVER AN INDEFINITE FUTURE, TO APPLY MORE LOWER COST ENERGY PER UNIT OF OUTPUT THAN ITS WEST EUROPEAN (AND JAPANESE) COMPETITORS. ALTHOUGH IT IS PROBABLY TOO EARLY TO REACH ANY SUCH SWEEPING CONCLUSIONS, AT LEAST UNTIL THE ACTUAL OIL SUPPLY/PRICE SITUATION IN A POST-EMBARGO WORLD IS CLEARER, THE QUESTION ITSELF IS A CENTRAL ONE IN ASSESSING THE FUTURE OF THE ECONOMIC RELATIONSHIPS AMONG INDUSTRIAL COUNTRIES.

3. SHOULD THE PRODUCTIVITY GAP THEORY PROVE VALID, THE EFFECTS ON GERMANY COULD BE MARKED. SUCH A LONG-TERM PROSPECT, COMBINED WITH AN OIL-INDUCED INFLATION IN 1974 AND BEYOND OF GREATER SEVERITY THAN ANTICIPATED, COULD BRING IN ITS TRAIN A FALL IN COMPETITIVENESS OF GERMAN EXPORTS, WITH DRAMATIC IMPACT ON ITS BALANCE OF TRADE AND PAYMENTS. SUCH A PERCEPTION OF GERMANY'S IMMEDIATE ECONOMIC FUTURE WOULD CERTAINLY AFFECT ITS CURRENT POLICIES. A MITIGATING ELEMENT IN THE SHORT AND MEDIUM TERM SITUATION IS PROVIDED BY THE FRG'S RECENT EXTRAORDINARILY FAVORABLE BALANCE OF TRADE AND PAYMENTS POSITION AND BY THE VERY COMFORTABLE CUSHION OF A HIGH FOREIGN EXCHANGE RESERVE (ABOUT 95 BILLION DMARKS). AMONG WESTERN TRADING NATIONS, GERMANY IS IN THE BEST POSITION TO ABSORB, OVER AN INTERMEDIATE TERM, AN INCREASED FOREIGN EXCHANGE OUTFLOW IN PAYMENT FOR IMPORTED ENERGY.

4. A JUSTIFIED SELF-CONFIDENCE IN GERMANY'S ECONOMIC STRENGTH--IN CURIOUS COMBINATION WITH SOME LINGERING INSECURITY IN POLITICAL AFFAIRS--HAS BEEN A KEY INGREDIENT OF THE FEDERAL REPUBLIC'S FOREIGN ECONOMIC POLICY IN RECENT YEARS. JUST TO CITE FOUR EXAMPLES, THIS
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CONFIDENCE IN GERMANY'S INTERNATIONAL COMPETITIVE STRENGTH WAS AT THE BASIS OF: 1) A LIBERAL ATTITUDE ON TRADE POLICY ISSUES--INCLUDING SUCH TRANSATLANTIC ONES AS THE MTN AND GATT ARTICLE 24:6 NEGOTIATIONS; 2) A READINESS TO MAKE EC COMPROMISES POSSIBLE BY PAYING UP AN EXTRA MEASURE FOR PROJECTS THAT MIGHT BENEFIT OTHERS MORE THAN GERMANY; 3) A GENEROUS APPLICATION OF MONEY TO BUY POLITICAL CONCESSIONS IN EASTERN EUROPE AND

THEREBY KEEP AN OTHERWISE STALLED EASTERN POLICY GOING;
4) A GENEROUS AID POLICY TO LDC'S. CERTAINLY LIBERAL
TRADE, EC INTEGRATION, EASTERN RELATIONS AND LDC AID
WILL BROADLY REMAIN IN THE FRG'S INTEREST. BUT IF THE
FINANCIAL AND ECONOMIC COST IS CONTINUALLY QUESTIONED
BY COMPETING DOMESTIC CLAIMANTS AND VULNERABLE TO
BEING PICKED AT BY THE GOVERNMENT'S SHARP PENCIL PEOPLE,
THEN THE GAME MIGHT BE PLAYED QUITE DIFFERENTLY THAN
IN THE PAST. IN SHORT, THE FRG WOULD BECOME AN EVEN

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 00209

TOUGHER NEGOTIATOR, DRAWING A MORE SHORT-TERM BALANCE OF
WHAT IS IN IT FOR GERMANY.

5. TO SOME EXTENT WE HAVE ALREADY SEEN EVIDENCES OF A

GROWING READINESS TO ASSERT GERMAN NATIONAL INTERESTS.
FOR EXAMPLE, HELMUT SCHMIDT'S EFFORTS CONTINUE TO IMPEDE
THE EXPENSIVE PEOPLE-FOR-MONEY DEAL WITH POLAND, WHICH THE
FOREIGN OFFICE ONCE THOUGHT IT HAD WORKED OUT. SCHMIDT
HAS ALSO BEEN ARGUING FOR A TOUGHER STANCE BY THE FRG
ON EC QUESTIONS, PARTICULARLY THE CAP AND REGIONAL
POLICY. THIS HAS POSITIVE ASPECTS FOR THE WEST TO THE
EXTENT, FOR EXAMPLE, THAT GERMANY SUCCEEDS IN PRESSING
FORWARD THE CAUSE OF GENUINE ECONOMIC AND POLITICAL
INTEGRATION IN WESTERN EUROPE, A GOAL STRONGLY
SUPPORTED BY BOTH THE GOVERNMENT AND THE OPPOSITION.

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6. THE PRODUCTIVITY GAP THESIS COULD, HOWEVER, INTRODUCE A NEW DIMENSION TO GERMANY'S PROMOTION OF NARROW SELF-INTEREST. SCHMIDT HAS BEEN AN EARLY PROTAGONIST OF THE THESIS. MOREOVER, OFFICIALS SUCH AS ASSISTANT SECRETARY LANTZKE (ENERGY) IN THE ECON MINISTRY AND ASSISTANT SECRETARY HERMES (MFA) HAVE ECHOED THE PRODUCTIVITY GAP THESIS AND ITS IMPACT ON THE FRG'S BALANCE OF PAYMENTS. LANTZKE CONSERVATIVELY ESTIMATED GERMANY'S EXCESS PAYMENTS FROM LATEST CRUDE PRICE INCREASES IN VICINITY OF DM 20 BILLION FOR 1974. HE INDICATED THAT THE MONEY MARKET IS OBVIOUSLY ASSESSING THE SITUATION SIMILARLY, AS REFLECTED IN SHARPLY CHANGED MARK/DOLLAR EXCHANGE RELATIONSHIP. THIS MAY BE ONLY "SILVER LINING" ON DARK HORIZON, HE ADDED, BY MEANS OF WHICH GERMAN EXPORTS STAND TO RECOUP SOME COMPETITIVE ADVANTAGE THEY WILL HAVE LOST TO US EXPORTS.

7. NONE OF THE GERMAN OFFICIALS WE HAVE TALKED TO ARE WAITING FOR A MORE CONCLUSIVE VERDICT ON WHETHER OR NOT AND TO WHAT EXTENT THE PRODUCTIVITY GAP THESIS IS CORRECT. IN THE SHORT-TERM THEY MAY NOT BE AVERSE AT USING THEIR GLOOMY FORECASTS FOR THE FRG IN DEALINGS WITH THE US IN THE FIRST INSTANCE IN BALANCE OF PAYMENTS OFFSET NEGOTIATIONS.

HILLENBRAND

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